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C O N F I D E N T I A L SECTION 01 OF 03 DUSHANBE 000628

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SUBJECT: SETTING THE SCENE FOR DEPUTY ASSISTANT SECRETARY OF COMMERCE  
PAUL DYCK'S MAY 6-9 VISIT TO TAJIKISTAN

CLASSIFIED BY: Tracey Ann Jacobson, Ambassador, U.S. Embassy,  
Dushanbe, State.

REASON: 1.4 (d)

¶1. (C) You will be pleasantly surprised by the veneer of Dushanbe's active consumer economy, which hides the underbelly of massive corruption and industrial decay. The government, including the recently renamed Foreign Minister Zarifi and President Rahmon (going back to their Tajik roots), insists on talking "economics before politics." However, they turn a deaf ear when we insist that only reforming their business climate will attract Western investors, and are insulted by the suggestion that corruption scares off businesses. They point to over \$800 million in no-strings-attached Chinese loans they have received for infrastructure projects, and tell us to bring American companies to Tajikistan.

¶2. (U) We enjoy friendly relations with this small but strategic country on the Afghan border, and view economic and democratic development here as a key to ensuring long-term regional stability. While U.S.-Tajik bilateral economic relations are small (\$103 million trade turnover last year), we continue to seek avenues for U.S. private participation in the Tajik economy-- and encourage international investment to help advance economic reforms and stability.

¶3. (U) Existing foreign businesses welcome the potential opening of an American Chamber of Commerce in Tajikistan, as a signal that Tajikistan is catching up with the rest of the world. While few American companies operate here, several US-Tajik joint ventures have expressed interest in joining an Am Cham. Following a series of working group meetings and several Am Cham-sponsored events, your attendance at the planned Am Cham founder's dinner on May 8 will encourage Tajik-American businesses to establish a chamber here.

¶4. (U) Your visit provides another chance for Tajik government officials to hear first-hand the steps they need to take for economic development, a message they do not necessarily accept. In your meetings, you will encounter a great enthusiasm for U.S. investment, and requests to send American companies to Tajikistan, but few substantial examples of what the Tajiks are doing to create an attractive environment or recruit international businesses beyond vague talks of "fighting corruption" and a "law on foreign investments" that has yet truly to protect the few international firms that run into problems. Cross-border trade faces customs challenges, visa issues, and political mistrust. The Department of Commerce-sponsored Central Asia Transportation Infrastructure Conference on May 7 offers private companies across the region a

chance to push their officials to reform, and to enhance trade relationships in the region.

#### ENERGY AND INFRASTRUCTURE

15. (SBU) This past winter was a cold and dark one for most Tajiks, who lacked electricity and heat in all areas outside central Dushanbe. Tajiks find the situation very ironic, considering the country's massive hydropower potential. Lousy relations with neighboring Uzbekistan prevented normal shipments of electricity, oil and gas into Tajikistan. You will be asked about U.S. plans for developing Tajikistan's energy sector. Although the U.S. company AES is opening a Dushanbe office, we are not a major player in this sector, compared to Russia, China, and Iran, who are all building hydropower stations. You will be asked when the United States will build Dashti-Jhum, a massive 4000 megawatt dam on the Afghan border.

16. (SBU) As part of the push for regional integration, the United States is pushing for Tajik hydropower to be exported to Pakistan and Afghanistan. A major issue is who will pay for the electricity once it is produced. To that end, the United States is working in Afghanistan and Tajikistan to develop the regulatory environment and funded a feasibility study for transmission lines to Afghanistan. We are currently facilitating the negotiation of a power purchasing agreement between Tajikistan and Afghanistan, and are encouraging U.S. private sector participation in the development of hydropower and related infrastructure.

17. (SBU) Given the steady flow of state-funded investment from China, Iran and Russia in hydropower, transmission lines, telecom, roads and tunnels, the Tajiks will be looking for the same kind of engagement from the United States -- and will be less interested in hearing that they should improve their

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business climate in order to attract private companies.

#### TRANSPORTATION

18. (C) It is incredibly hard to get in and out of Tajikistan. You will leave Dushanbe on the twice-weekly Turkish Air flight to Istanbul, the only flight for Western business travelers, and the only airline serving Tajikistan where you can buy a ticket online. Government-owned Tajik Air has refused to reform despite massive pressure from President Rahmon and international donors. Tajik Air's rapidly aging fleet will last only a few more years, and they have been actively pursuing purchase of new planes. The Embassy has facilitated communications with Boeing and with leasing companies interested in providing aircraft to Tajik Air. Although we view this as a good opportunity for U.S. exports, Tajik Air has been unable to come up with the financing, largely because they are unwilling to open their books to independent audits. Our message to Tajik Air is they need to reform their ticketing policies and join the international reservations system, adopt international accounting standards, and separate their airport operations and civil aviation administration from the airline operations. Tajik Air's lack of development is a major hindrance to international investment. Businesses will find it easier to go to Kazakhstan and Kyrgyzstan

19. (SBU) Tajikistan relies on rail transport for most of its trade. Northern and southern rail routes carry cotton and aluminum out of the country and bring in consumer goods, vehicles, food, and agricultural equipment. Main rail routes pass through Uzbekistan and up through Kazakhstan and Russia towards Europe. Some goods pass through Uzbekistan to Turkmenistan, Iran, and the Caspian Sea. There are no rail links to China or Afghanistan. Roads through the mountains range from poor and jaw-rattling in good weather to impassable during winter.

110. (C) Tajik officials and businesspeople are very excited about the opening of the U.S.-funded bridge at Nizhniy Pyanj,

(which you will visit on Victory Day -- May 9). The bridge will allow the Tajiks more opportunity to bypass Uzbekistan and look to South Asia as a commercial destination and partner. The bridge should open in August with Afghan President Karzai, Tajik President Rahmon, and a high-level U.S. delegation attending. The Tajik Foreign Minister floated the idea of a 10-vehicle commercial convoy crossing the bridge carrying export goods from Tajikistan to Afghanistan and Pakistan as part of the opening ceremony. Security issues in Afghanistan may prevent the convoy from traveling south at the official opening, but it's a vision that supports our concept of regional economic integration.

#### US - TAJIK TRADE

¶11. (U) The United States exported \$40 million in pharmaceuticals, foodstuffs, and consumer products to Tajikistan in 2006. Tajikistan in return sent \$60 million in aluminum to the United States. In 2007, Tajikistan's overall exports will grow to \$1.2 billion, while its imports will swell to \$2 billion. Tajikistan sustains this deficit through a massive inflow of foreign remittances from Tajik workers abroad in Russia, Kazakhstan and other countries. Last year, official remittances (passing through banks) exceeded \$1.2 billion; quite a boost for a \$3 billion economy. Remittances have fed consumer spending and construction, but do not feed back into the economy as investments due to the weak banking sector and uncertain investment climate.

¶12. (U) U.S. companies active here include the energy company AES, the telecom company MCT, COMSUP in mining, and Wakefield Inspections, Rakhsh, and Javoni in textiles. The U.S.-owned Obi Zulol water factory in northern Tajikistan ships bottled water to NATO troops in Afghanistan. The major investment and trade opportunities for U.S. companies include hydropower generation and services, construction equipment, agribusiness machinery, telecommunications equipment, mining equipment, and food processing and packaging.

#### INVESTMENT CLIMATE

¶13. (U) Tajik officials will insist that Tajik legislation provides a welcome climate for foreign investment. However, courts do not uphold contracts or the rule of law. Investors bristle at the hassle of Tajik corruption; repeated demands for money from low and mid-level officials across the government dissuade entrepreneurs. Small businesses flourish outside the

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official economy trading agricultural and consumer goods, avoiding taxes and customs fees. Our consistent message to the Tajiks is: support the growth of small and medium enterprises and reduce barriers to investment such as corruption.

¶14. (U) Businesses face the usual laundry list of challenges: excessive standardization and certification regulations; difficult and corrupt customs clearances; confusing licensing requirements. Tajikistan's nascent banking sector faces numerous challenges: insufficient capital, limited banking services, and mistrust as a result of defaults in the 1990's. Long-term loans are hard to come by in this cash-based economy.

¶15. (SBU) One recent welcome turn of events concerned Gerald Metals - after over two years, Tajikistan resolved the long-standing dispute by agreeing to pay the entire \$30 million the U.S. company claimed following the default by the state-owned aluminum company TadAZ. In addition, GDP growth continues at over 7% annually, beginning to lift Tajikistan out of extreme poverty. Tajikistan launched WTO accession negotiations in 2004, and made progress in 2005 on the Goods and Services Market Access Negotiations. We look forward to your visit and the dialogue it will bring.

JACOBSON